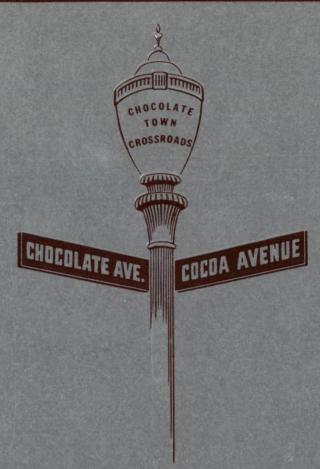
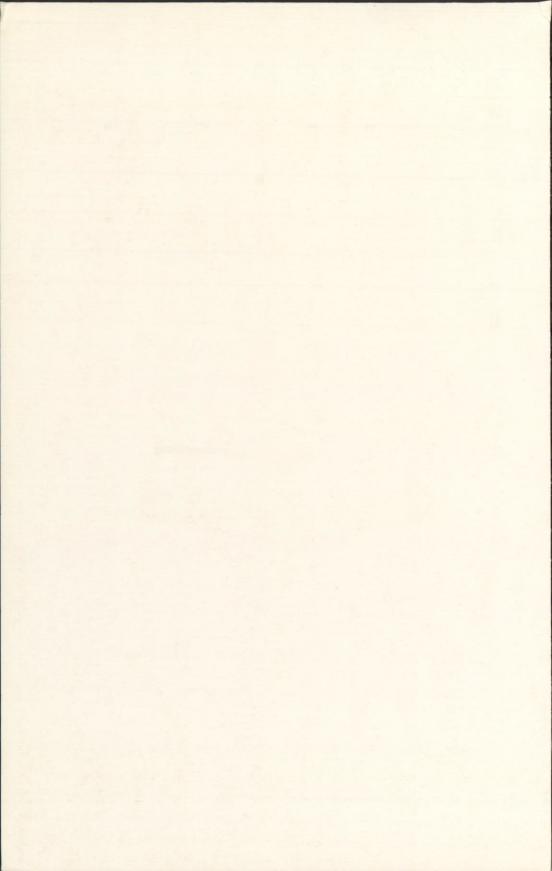
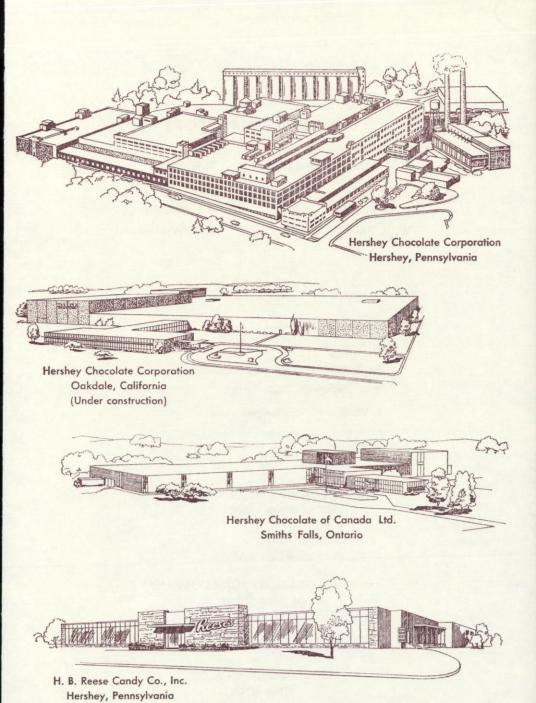
HERSHEYS



ANNUAL REPORT DECEMBER 31, 1963





BOARD OF DIRECTORS

S. F. HINKLE, Chairman

R. H. REESE

J. HEMPHILL

W. E. SCHILLER

H. S. MOHLER

R. L. UHRICH

W. H. RADEBAUGH

A. R. WHITEMAN

OFFICERS

S. F. HINKLE, President

H. S. MOHLER, Vice President

W. E. SCHILLER, Vice President and Treasurer

R. L. UHRICH, Secretary

L. W. SIMMONS, Comptroller

TRANSFER AGENT

FIRST NATIONAL CITY BANK NEW YORK

REGISTRAR

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

AUDITORS

ARTHUR ANDERSEN & CO. NEW YORK To the Stockholders:

In the sixtieth anniversary year of the founding of your Company and of the community of Hershey, several events of particular significance to all of us have occurred and will have important impacts upon the future development of our business. Construction was begun, and is well under way, of our first American branch plant, located in Oakdale, California. Our Canadian plant in Smiths Falls, Ontario, was formally opened in June under most festive circumstances arranged by our Canadian friends. Another major development was the exchange of 666,316 shares of Hershey Chocolate Corporation common stock for the business of H. B. Reese Candy Company. These three incidents were milestones; there were others of lesser significance which also will be discussed in this report.

Inasmuch as the Reese-Hershey transaction has been accounted for as a pooling of interests, the results of the Reese operations, from January 1, 1963, have been included in the totals for the year and the totals for 1962 have, for the purpose of comparison, been restated to include the Reese figures.

Total combined sales reached a new record of \$203,021,904 in 1963 as compared with \$191,332,314 in the previous year. The consolidated net earnings in 1963 were \$22,233,913 compared with \$22,696,704 in 1962. Therefore, the earnings per share were \$1.82 and \$1.86 in the respective years. Earnings previously reported, and not including the Reese operations, were \$1.80 per share for 1962. Dividends of ninety cents per share were paid in both years and included an extra payment of twenty cents in each year.

The year 1964 is well under way and, while we have no predictions to make, our products are selling very well and we expect that our sales growth will continue. Consumer acceptance of our variety of items is, on the whole, excellent and you may rest assured that our entire organization is dedicated to the challenge of retaining and increasing the scope of the fine reputation your Company possesses.

The cost of our basic raw materials will always have an appreciable effect upon our price structures, our ability to compete with non-chocolate confectionery and other food items, and upon our earnings. The prices of both cocoa beans and sugar advanced during the year, the latter reaching the highest levels since the shortages in the years after World War I. The size of world crops largely determines world prices of these commodities. Realistic forecasting is not possible, but the prospects for an adequate supply of cocoa beans are bright. The 1963 pattern of sugar prices with its wide gyrations was without precedent, but there is some reason to hope that costs of this commodity will be lower and more stable in 1964.

Your Company can and must take appropriate measures in price and weight adjustments to counteract sharp commodity price increases, but it has always been our policy to give our consumers the best possible value in return for their patronage.

From the inception of its business, the chocolate used in the manufacture of Reese's Peanut Butter Cups has been purchased from Hershey. On July 2, 1963, H. B. Reese Candy Co., Inc., a newly organized, wholly-

owned subsidiary of Hershey Chocolate Corporation, exchanged 666,316 shares of Hershey Chocolate Corporation stock for the assets and business of H. B. Reese Candy Company and its affiliate, Reeco, Inc. These shares were purchased by the new subsidiary following an offer to all stockholders to tender stock at the market price of \$34.50 per share. The Reese Company was founded in 1923, in Hershey, where its new plant is now located. The famous Peanut Butter Cups of this company are distributed and sold throughout the United States.

On July 20, 1963, groundbreaking ceremonies took place in California, and within a year from now operations will be under way in this new facility, ninety miles east of San Francisco, from which point it is planned to distribute our products to the western area of the country.

Our Canadian plant is now operating smoothly and our products are meeting with increasing consumer acceptance in the Dominion. As indicated in last year's report, it is expected that several years will be required to develop a substantial market in a country where our name is not as well known as at home and, therefore, our operations cannot be expected to reach a profitable level until consumer awareness of our products becomes a reality.

During the year HERSHEY'S Butter Chip Milk Chocolate bars were introduced, as forecasted in last year's report. This item is meeting with excellent acceptance and already production facilities have been doubled to meet the demand.

After a period of test marketing, the Company has released for general sale a new line of toppings for ice cream and other desserts as shown in the enclosed illustration. These toppings, packaged in glass jars, are of four varieties: Milk Chocolate Fudge, Chocolate Mint, Chocolate Peanut Butter, and Butterscotch.

During the latter months of the year we have begun production and sale of a brightly colored, foil-wrapped solid chocolate novelty in the shape of eggs, which to this date have been sold only in bulk packages.

We invite you, as stockholders, to become acquainted with the appetizing flavor of Reese's Peanut Butter Cups, if you have not seen them, and also to pass on your opinions of the other new items which we have mentioned. Some of the Reese items are illustrated in the enclosed material. There are a number of our items which have been restyled and newly released, the purpose being to gain maximum consumer appeal as they appear on the market.

Capital expenditures for the year 1963 were approximately \$6,400,000. These include the final cost of building and equipping the Canadian plant, the initial expenditures for the California plant, and the cost of expanding and improving existing facilities, as well as that of new devices and machinery in the Hershey plant for the purpose of strengthening our over-all efficiency of production.

While your Company is not a prime mover nor financially involved in the project, we are greatly stimulated by the announcement in 1963 that a new medical school and teaching hospital to be affiliated with The Pennsylvania State University will be established in the community of Hershey. The Milton S. Hershey Medical Center has been made possible

by a court-approved grant of fifty million dollars from the trust funds of the Milton Hershey School for orphan boys which was founded by Mr. Hershey in 1909. The school is majority stockholder of Hershey Chocolate Corporation.

On July 2, 1963, Robert H. Reese was elected to the board of directors of Hershey Chocolate Corporation. Mr. Reese previously had served as chairman of the board of H. B. Reese Candy Company, in which he has been active throughout his business life. His specialized knowledge of marketing is particularly valuable to us as he continues to be active in the capacity of president of H. B. Reese Candy Co., Inc.

In the past several years our Company has been adhering strictly to a policy of retirement at age sixty-five. For this reason, William H. Radebaugh will terminate his services as a member of the board of directors on March 23, the date of our annual meeting. Mr. Radebaugh has a profound knowledge of corporation law and has rendered invaluable service to Hershey Chocolate Corporation in dealing with the intricate legalistic ramifications of our business since 1947. His retirement from our board does not mean that we will lose his services as a consulting attorney. Nevertheless, it is still with a genuine feeling of personal loss that we announce his retirement from the board.

Carrying on with tradition, we once again cordially invite you to visit our plants in Hershey and Smiths Falls and to view our developments in Oakdale when in California. Each year in Hershey our Visitors Department receives an increasing number of people from all sections of the country, as well as from foreign lands. In 1963 a total of 400,000 visitors came to tour our plant. Many of you, I believe, with your family and friends, will visit the New York World's Fair in the next two years and it is appropriate we draw to your attention that Hershey is located on a major highway, only twelve miles east of Harrisburg, the capital of Pennsylvania, and but a few miles north of the Pennsylvania Turnpike. This is your official invitation to call upon us on any working day with the exception of the first two weeks in July when we close for our factory vacation period.

With the passing of another year, the younger men in our organization are rising in stature and responsibility and their combined experience is a bulwark of great strength to the Company and its stockholders as our business evolves. The cooperation between departments and the loyalty of those who carry responsibility—both to the Company and to each other—is a never-ending source of satisfaction. I would like to close this letter with an acknowledgment of sincere appreciation for the efforts of all of our officers and employees who played a part in furthering the welfare of their Company.

Respectfully submitted,

Huxl.

Chairman of the Board and President

HERSHEY CHOCO and CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:		
Cash		\$ 7,878,288
Accounts receivable, less reserves of \$468,970		9,050,566
Inventories (Note 1)		69,490,554
Total current assets		\$ 86,419,408
PLANT AND PROPERTY, at cost:		
Land	\$ 398,175	
Buildings and improvements	21,934,576	
Machinery and equipment	34,306,359	
Construction in progress	4,082,483	
	\$60,721,593	
Less—Reserves for depreciation	29,620,266	31,101,327
PREPAID ITEMS		593,049
		\$118,113,784

Reference is made to the accom

ATE CORPORATION

sidiaries

HEET - DECEMBER 31, 1963

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities		\$ 6,451,500
Reserve for state taxes		1,036,759
Reserve for Federal income tax	\$11,602,138	
Less — U. S. Government short-term securities	8,414,182	3,187,956
Total current liabilities		\$10,676,215
RESERVE FOR DEFERRED FEDERAL AND STATE INCOME TAXES		1,300,000
CAPITAL STOCK AND SURPLUS:		
Common stock, without par value— Authorized 15,000,000 shares; outstanding 12,221,620 shares (Notes 2 and 3)	\$ 8,972,384	
Earned surplus (Note 3)	97,165,185	106,137,569
		\$118,113,784

ring notes to financial statements.

HERSHEY CHOCOLATE CORPORATION

and Subsidiaries

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1963

PROFIT AND LOSS

NET SALES		\$203,021,904
COST OF GOODS SOLD, SHIPPING, SELLING, ADMINISTRATIVE AND GENERAL EXPENSES (including depreciation of \$2,039,116)		155,790,643
		\$ 47,231,261
PROVISION FOR INCOME TAXES:		
Federal income tax	\$23,151,489	
income tax	1,845,859	24,997,348
Net profit for the year (Note 3)		\$ 22,233,913

EARNED SURPLUS

BALANCE AT DECEMBER 31, 1962		\$108,572,203
ADD Net profit for the year 1963		22,233,913
		\$130,806,116
DEDUCT Dividends:		
Common stock, \$.90 a share Preferred stock of H. B. Reese Candy	\$10,991,401	
Company prior to July 2, 1963 (Note 3)	24,140	
Charge in connection with pooling of interests (Note 3)	22,625,390	33,640,931
BALANCE AT DECEMBER 31, 1963		\$ 97,165,185

Reference is made to the accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

- (1) Inventories of cocoa beans, almonds and peanuts together with such materials and wage costs included in finished goods and goods in process, are substantially all stated at cost under the "last-in, firstout" method. The remaining inventories are stated at the lower of average cost or market.
- (2) Under the Officers and Key Employees Stock Option Plan approved in 1957 there were 274,635 authorized but unissued shares of common stock reserved at December 31, 1963. Of these shares 12,090 were for outstanding options (at \$16.80 per share for 7,090 shares and \$34.00 per share for 5,000 shares), and 262,545 shares were for future options. Options for 22,760 shares were exercised during the year, and the proceeds of \$382,368 were credited to the common stock account.
- (3) On July 2, 1963, a wholly-owned subsidiary of the Company exchanged 666,316 shares of common stock of Hershey Chocolate Corporation for the assets and business of H. B. Reese Candy Company and of its affiliate, Reeco, Inc. This transaction has been accounted for as a pooling of interests and accordingly, the earned surplus of the predecessor companies as of December 31, 1962 and the results of their operations from January 1, 1963 have been included in the accompanying financial statements.
 - In addition, the capital stock account has been increased by \$1,973,488, representing the excess of the par value of the capital stock of Reese and Reeco over the amount of paid-in capital attributed to the shares used in the transaction.
 - The shares of Hershey Chocolate used had been purchased by its subsidiary from various stockholders for an aggregate of \$22,987,902, a solicitation for tenders having been made. The difference between the cost of the shares of Hershey Chocolate used and the paid-in capital attributed thereto was charged to earned surplus.
 - Consolidated net profit for 1962, restated to give effect to this transaction was \$22,696,704.

AUDITORS' OPINION

To the Board of Directors and Stockholders of Hershey Chocolate Corporation:

We have examined the consolidated balance sheet of Hershey Chocolate Corporation (a Delaware corporation) and subsidiaries as of December 31, 1963, and the related statements of consolidated profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and earned surplus present fairly the financial position of Hershey Chocolate Corporation and subsidiaries as of December 31, 1963, and the results of operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

New York, N. Y., February 12, 1964.

HERSHEY'S PRODUCTS

FOR THE CONSUMER

MILK CHOCOLATE BARS

MILK CHOCOLATE KISSES

ALMOND BARS

BAKING CHOCOLATE

SEMI-SWEET BARS

DAINTIES

KRACKEL BARS

COCOA

MR. GOODBAR

CHOCOLATE SYRUP

BUTTER CHIP BARS

INSTANT COCOA MIX

MINIATURE BARS HOT CHOCOLATE POWDER

HERSHEY-ETS

CHOCOLATE TOPPINGS

MINT CHOCOLATE

BUTTERSCOTCH TOPPING

CHOCOLATE COVERED ALMONDS SWEET MILK COCOA

FOR INDUSTRIAL USERS

(Confectionery, Baking, Ice Cream, and other Industries)

CHOCOLATE COATINGS

COCOA POWDER

COCOA BUTTER

CHOCOLATE SYRUP

REESE'S PRODUCTS

REESE'S PEANUT BUTTER CUPS

(In various sizes and packages for the consumer)

HERSHEY CHOCOLATE CORPORATION

and Subsidiaries

EXECUTIVE OFFICES AND MANUFACTURING PLANTS
HERSHEY, PENNSYLVANIA
SMITHS FALLS, ONTARIO

WAREHOUSES

UNITED STATES

Atlanta, Ga.

Billings, Mont.

Cambridge, Mass.

Chicago, III.

Cincinnati, Ohio

Dallas, Texas

Davenport, Iowa

Denver, Colo.

Detroit, Mich. East St. Louis, III.

Houston, Texas

Jacksonville, Fla.

Kansas City, Mo.

Little Rock, Ark.

Los Angeles, Cal.

Memphis, Tenn.

Milwaukee, Wis.

New Orleans, La.

North Bergen, N. J.

Oklahoma City, Okla.

Omaha, Neb.

Pittsburgh, Pa.

Portland, Ore.

St. Paul, Minn.

Salt Lake City, Utah

San Francisco, Cal.

Seattle, Wash.

CANADA

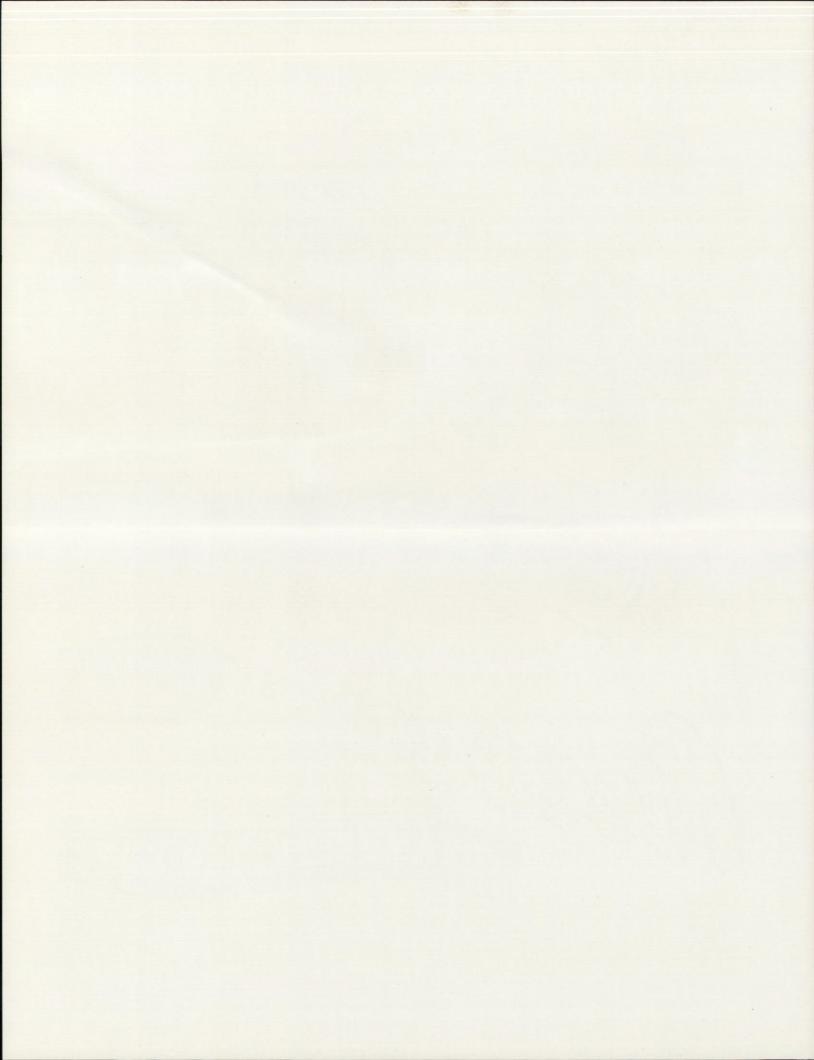
Calgary, Alberta Edmonton, Alberta Moncton, New Brunswick Vancouver, British Columbia

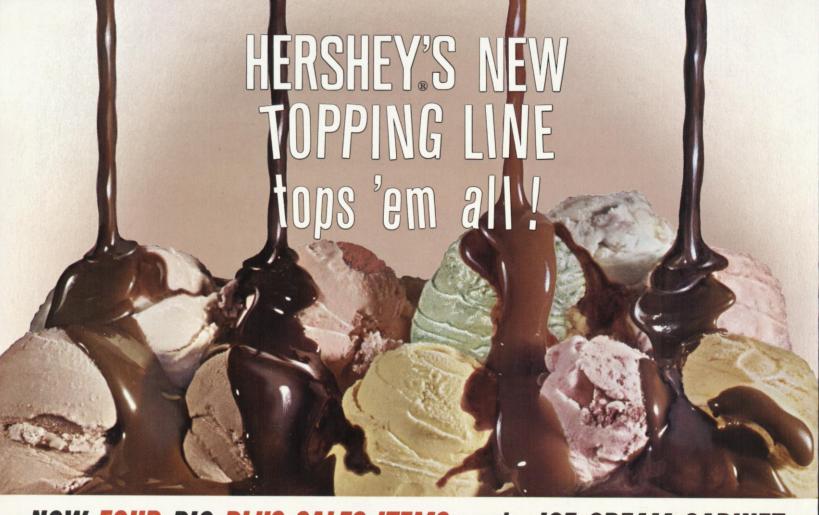
Winnipeg, Manitoba

SALES OFFICES

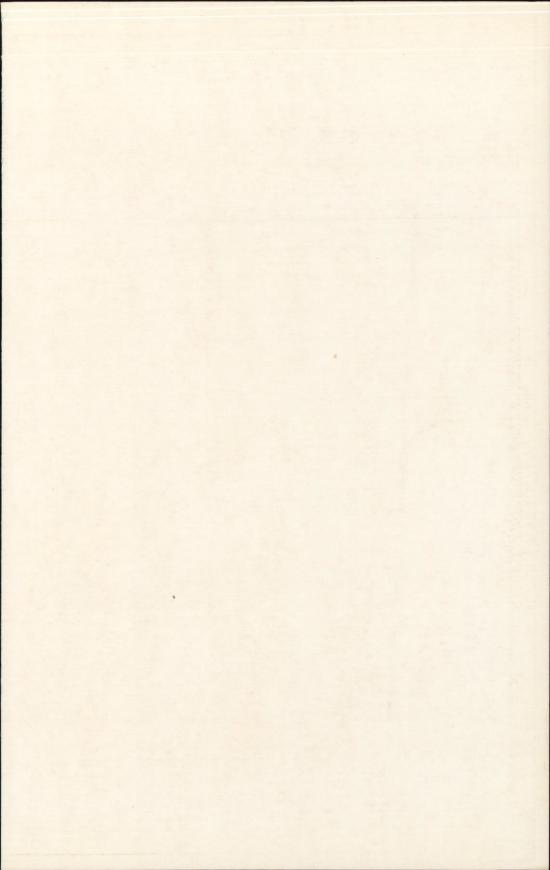
In principal cities of the United States and Canada.







NOW FOUD DIC DIVIC CALFO ITEMS AND LOS OFFICE OF THE





Milk Chocolate FUDGE TOPPING

The favorite of millions now in new pack for greater eye appeal, greater sales.



Chocolate flavored MINT TOPPING

Delicious, all new. Combines world famous Hershey's chocolate flavor with rich, tempting mint.



BUTTERSCOTCH TOPPING

A brand new taste delight that makes any sundae a masterpiece!



Chocolate flavored PEANUT BUTTER TOPPING

All new and all delicious! Millions who love peanut butter flavor can't resist it.

